

NORTHERN TRANSPORTATION COMPANY LIMITED

1970 ANNUAL REPORT

AR17



Northern Transportation Company Limited

HEAD OFFICE: Suite 800, 151 Slater St., Ottawa, Canada, KIP 5H3
OPERATIONS OFFICE: 10040 - 105th Street, Edmonton, Alta.

DIRECTORS

A. B. Caywood
C. S. Cosulich
W. M. Gilchrist
W. B. Hunter
P. L. P. Macdonnell
H. Basil Robinson
J. H. Parker
Murray Watts

OFFICERS

President: W. M. Gilchrist
Executive Vice-President: L. R. Montpetit
Vice-President Operations: W. B. Hunter
Secretary: R. C. Powell
Treasurer: J. C. Orr

The huge steel barges of Northern Transportation Company carry thousands of tons of vital supplies and equipment to the major oil development on Prudhoe Bay, Alaska.

President's Letter

The Honourable Donald C. Jamieson,
Minister of Transport,
Ottawa, Canada

Sir,

On behalf of the Board of Directors, and in accordance with Section 85 (3) of the Financial Administration Act, I have the honour to submit the Annual Report of Northern Transportation Company Limited for the year ended December 31, 1970.

Total freight revenues for the year amounted to $8,356,303, a decrease of some 1.6% from revenues for the previous year, while total operating costs, exclusive of financing charges, increased by 5.2%. When the financing charges arising out of the continuing expansion program are added, total costs increased by some 11.2% over 1969.

Tonnage handled increased by 9.5% over 1969, to an all-time high of approximately 281,000 tons. From the standpoint of revenue, the year's operation was unfavourably influenced by a severe curtailment of long-haul freight for Arctic oil exploration in Alaska and the Canadian sector.

For the first year since 1944, your company has recorded a loss. While operations produced a profit of $474,881, compared with $974,836 in 1969, the cost of servicing debt rose from $468,125 to $1,019,333, and resulted in an overall loss of $544,452 for the year, compared with a pre-tax profit of $506,711 in 1969. By a change in depreciation policy made in 1970, the company is now using a more realistic 15-year term of depreciation on marine equipment, rather than 10 years as in the past.

Your company has not effected any general increase in tariffs since the early 1950's, and has in fact reduced rates during the past 20 years as traffic volume and improvements in freight handling techniques have permitted. However, it is evident that with the heavy expenditures required to keep the system abreast of demand, and in the face of normally escalating costs, some tariff increases must soon be implemented if an adequate return on the investment is to be achieved.

The fleet was expanded during 1970 by the addition of a new river tug, the M. V. "VIC INGRAHAM", the largest unit to date, and by the addition of eight large barges, each of 1500 tons capacity. Water levels in 1970 did not pose as critical a problem as in 1969. In view of the work now in progress to improve the river channel, and the increasing discharge from the Bennett Dam, it is not likely that the water level problem will be as acute in the foreseeable future as it was in 1969.

The volume of traffic, and revenues, in 1971 will be significantly influenced, as in the past year, by the extent of oil exploration activity in the Canadian Arctic and Alaska. In collaboration with the Canadian National Railways, the company's marketing staff is actively promoting in the United States the advantages of the relatively more reliable Mackenzie River route to the Arctic.

In early 1970, Mr. L. R. Montpetit, previously Assistant to the President of the parent company, for transportation, was appointed Executive Vice-President of the company; Mr. W. B. Hunter, formerly General Manager, was appointed Vice-President, Operations; Captain W. S. Hall, previously Superintendent of Marine Operations moved to the position of Manager, Marketing and Research, and Captain S. Thorsteinson became Superintendent of Marine Operations.

The resourcefulness and loyalty of its employees is one of the company's principal assets, and your directors wish to record their appreciation for a job well done.

For the Directors,

W. M. Gilchrist

President

Ottawa, Canada

March 5, 1971



General Report

In 1970, freight carried reached a new record of 280,736 tons, compared with 256,354 in 1969, which in itself was a new high. The additional tonnage was comprised of both bulk oil products and general freight, but there was a substantial reduction from 26,000 tons to about 9,000 tons in the volume carried to the Prudhoe Bay area of Alaska.

Gross freight earnings, at $8,356,303 were down slightly from the previous year's $8,492,270. Operating costs in 1970, apart from debt servicing charges, rose by 5.2% to $7,991,152 from $7,599,018 in 1969. Costs were higher in respect of operating salaries and wages, messing, and administration, but were lower in respect of maintenance and depreciation charges. The improved maintenance cost is attributable largely to a reduction in 1970 repair costs arising from a lower incidence of damage during the 1969 season; and the reduction in depreciation charges results from a decision to employ a more realistic 15-year amortization term for marine equipment.



Net income from operations of $365,151 plus other income of $109,730 totalled $474,881 in 1970 compared with $974,836 in 1969. However, due to the larger amounts borrowed from the government of Canada for expansion purposes, interest charges increased from $468,125 in 1969 to $1,019,333 in 1970, and put the company into a loss position, of $544,452, for the first time since 1944.

The company has been re-assessed by the Department of National Revenue in respect of the years 1966 and 1967 following acquisition of Yellowknife Transportation Co. and its two associated companies, Arctic Shipping Limited and Decury Supply Limited. The Department has assessed additional income tax of $172,653, holding that designated surpluses in these companies are now deemed to be dividends. Your company has filed notice of objection with the Department.

Capital expenditures for the year amounted to $8,034,730. Of this total, eight new 1500-ton barges accounted for $3,480,875; the new river tug for $1,553,455; improvements to the Hay River terminal, including preparatory work for the Syncrolift installations, for $1,523,287; and a new terminal at Inuvik, for $740,437.

The 1971 capital program anticipates an expenditure of $4,000,000. This program will include $1,000,000 for completion of the Syncrolift installation, $900,000 for development of a marine repair depot at Hay River, and $692,000 for the upgrading and extension of freight handling facilities at Inuvik, Hay River, Tuktoyaktuk and Bear River.

In the 1970 operating season, the work force reached a maximum of 619 of whom 137 were residents of the area serviced by the company. Wages and salaries paid amounted to $3,566,109, and company contributions to pension and group medical welfare plans totalled $145,752.

Northern Transportation Company has completed a modern transhipping base for its Arctic services at Tuktoyaktuk. In the foreground are the MV Kelly Hall and the MV Radium Prospector and several huge cargo barges.

NORTHERN TRANSPORTATION COMPANY LIMITED

and subsidiary company

Consolidated Statement of Income and Expense

for the year ended December 31, 1970

(with comparative figures for the year ended December 31, 1969)

	1970	1969
Income:		
Freight earnings	$ 8,356,303	$ 8,492,270
Expense:		
Operation and maintenance:		
Salaries and wages	2,880,132	2,600,440
Depreciation (Note 3)	1,946,660	2,127,629
Repairs and maintenance	1,227,422	1,301,542
Fuels and lubricants	555,113	464,793
Messing	194,219	143,687
Insurance	141,290	73,769
Transportation of employees	87,936	82,098
Grants in lieu of municipal taxes	54,122	43,444
Pallets	48,754	87,089
Wharfage, demurrage and railway spur	21,230	24,389
Miscellaneous	85,386	70,625
	7,242,264	7,019,505
Administration:		
Executive officers' salaries	94,218	71,267
Other salaries	144,687	115,769
Employee benefits	169,926	147,126
Head Office	72,006	92,000
Advertising and public relations	56,355	16,790
Business tax	37,059	24,870
Travel	35,152	20,236
Provision for doubtful accounts	27,859	17,253
Telephone and telegraph	25,630	22,317
Stationery and office supplies	18,270	12,432
Depreciation	17,871	11,054
Miscellaneous	49,855	28,399
	748,888	579,513
	7,991,152	7,599,018
Net income from operations	365,151	893,252
Other income:		
Interest on investments	103,894	77,000
Gain on disposal of capital assets	5,836	4,584
	109,730	81,584
Other expense:		
Interest on loans from Canada	1,019,333	468,125
Provision for income tax	—	250,426
	1,019,333	718,551
Net loss (income)	$ 544,452	$ (256,285)

The accompanying notes are an integral part of the financial statements.

Consolidated Statement of Retained Earnings

for the year ended December 31, 1970

(with comparative figures for the year ended December 31, 1969)

	1970	1969
Balance at January 1	$ 7,361,280	$ 7,104,995
Net loss (income) for year	544,452	(256,285)
Balance at December 31	$ 6,816,828	$ 7,361,280

The accompanying notes are an integral part of the financial statements.

NORTHERN TRANSPORTATION COMPANY LIMITED

and subsidiary company

(Incorporated under the Canada Corporations Act)

Consolidated Balance Sheet

at December 31, 1970

(with comparative figures at December 31, 1969)

ASSETS

	1970	1969
Current Assets:		
Cash	$ 273,041	$ 259,933
Short-term deposits	200,000	1,600,000
Accounts receivable	818,297	1,425,943
Operating and general supplies, at cost	582,619	600,142
Prepaid expense	9,646	28,042
	1,883,603	3,914,060
Short-term Deposits held for Insurance Investment Fund	500,000	500,000
Capital Assets, at cost:		
Land	241,770	141,526
Buildings, including equipment	8,960,463	6,514,010
Boats and barges, including equipment	30,825,271	25,727,982
Automotive equipment	2,350,654	2,045,890
Other	217,544	181,903
	42,595,702	34,611,311
Less: Accumulated depreciation	20,300,360	18,381,322
	22,295,342	16,229,989
	$ 24,678,945	$ 20,644,049

LIABILITIES

	1970	1969
Current Liabilities:		
Accounts payable	$ 514,278	$ 1,709,356
Loans from Canada due within one year (Note 2)	3,879,308	2,140,903
Income tax payable	172,653	—
	4,566,239	3,850,259
Loans from Canada (Note 2)	11,000,000	7,000,000
Deferred Income Tax (Note 4)	640,392	777,024
Capital:		
Capital Stock: Authorized — 50,000 shares of no par value; Issued — 1,520 shares, fully paid	152,000	152,000
Reserve for insurance	500,000	500,000
Contributed surplus	1,003,486	1,003,486
Retained earnings	6,816,828	7,361,280
	8,472,314	9,016,766
	$ 24,678,945	$ 20,644,049

The accompanying notes are an integral part of the financial statements.

Approved on behalf of the Board

W. M. GILCHRIST, *Director*

P. L. P. MACDONNELL, *Director*

I have examined the above Consolidated Balance Sheet and the related Consolidated Statement of Income and Expense and have reported thereon under date of March 4, 1971 to the Minister of Transport.

A. M. HENDERSON

Auditor General of Canada

NORTHERN TRANSPORTATION COMPANY LIMITED

and subsidiary company

Notes to Financial Statements

1. Subsidiary Company

The Company now has one wholly-owned and inoperative subsidiary company, Yellowknife Transportation Company Limited, whose assets were taken over and liabilities assumed by Northern Transportation Company Limited in an earlier period.

2. Loans from Canada

In the fiscal years 1968-69, 1969-70 and 1970-71 the Company has been authorized to borrow up to aggregate amounts totalling $20,500,000 subject to certain terms and conditions prescribed by the Governor in Council. Of this amount $17,500,000 has been borrowed and a further $3,000,000 is available to the Company. A total of $3,000,000 has been repaid and $3,879,308 including interest of $379,308 is repayable in 1971. The remainder of $11,000,000 is repayable by December 31, 1974.

3. Depreciation

During 1970 management revised the rates of depreciation applied on boats and barges from 10% of cost to 6⅔% of cost. Had the rates in effect for 1969 been used, the depreciation expense and the loss for 1970 would have been $640,907 greater.

4. Deferred Income Tax

During the year this account was charged with an amount of $136,632 which was assessed by the Department of National Revenue (Taxation) with respect to dividends deemed to have been received by the parent company from its subsidiaries. The parent company is appealing the assessment.

5. Remuneration of Directors

Total remuneration of directors as directors, officers or employees of the Company for the year was $64,500.

AUDITOR GENERAL OF CANADA

Ottawa, March 4, 1970

The Honourable Donald C. Jamieson,
Minister of Transport,
Ottawa.

Sir,

I have examined the accounts and financial statements of Northern Transportation Company Limited and its subsidiary company for the year ended December 31, 1970. My examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as I considered necessary in the circumstances.

In compliance with the requirements of section 87 of the Financial Administration Act, I report that, in my opinion:

(a) proper books of account have been kept by the Company and its subsidiary;

(b) the financial statements of the Company and its subsidiary

(i) were, with the exception of the method of recording depreciation as reported in Note 3, prepared on a basis consistent with that of the preceding year and are in agreement with the books of account,

(ii) in the case of the balance sheet, give a true and fair view of the state of the affairs of the Company and its subsidiary as at the end of the financial year, and

(iii) in the case of the statement of income and expense, give a true and fair view of the income and expense of the Company and its subsidiary for the financial year; and

(c) the transactions of the Company and its subsidiary that have come under my notice have been within the powers of the Company and its subsidiary under the Financial Administration Act and any other Act applicable to the Company and its subsidiary.

Yours faithfully

A. M. HENDERSON,

Auditor General of Canada.

The History of Northern Transportation Company Limited

For the past 40 years the service provided by Northern Transportation Company Limited and its predecessor companies has been the principal lifeline for communities of the Mackenzie Basin and the Western Arctic. It has been a key factor in the continuing development of the Western Canadian Arctic and its role has never been more important than it is today when increase in demand is making possible the development of the vast resource potentials of the Arctic regions.

The fleet of Northern Transportation Company now comprises 28 tugs, three of which are of the 4,000hp ocean-going type, and all equipped with two-way radio, radar and echo-sounders; 145 all-steel barges of various types and sizes, ranging up to 1,500 tons, including some refrigerated units; and two cargo vessels, one of which was especially designed and equipped for service in the Arctic Ocean.

In 1970 the Company transported a record 281,000 tons of cargo. Forecasts place the 1971 tonnage at about 300,000, with a rise to 750,000 tons projected by 1975. The shipping season on the Mackenzie system normally runs from May to October, but Arctic operations usually are limited to August and September. In recent years the Company has been transporting oil drilling rigs and equipment and heavy tonnages of supplies, including pre-fabricated buildings, to far northern sites, often involving landings under unusual and difficult conditions. Vessels and barges of types which evolved during wartime, coupled with ingenuity and skill, come into play to serve island and coastal sites lacking in any type of dock facility and where landing can be made only on beaches.

The efficient and far-flung operation of Northern Transportation Company today is a far cry from that operated by its predecessor, Northern Waterways Limited, when it made a modest beginning in 1931 with one wooden vessel and two barges serving as a common carrier on the Mackenzie River between Waterways, Alberta, and Aklavik, N.W.T. In 1933 the service was extended into Bear River and Great Bear Lake to meet the needs of the developing Eldorado Mine at Port Radium.

The company changed hands in 1934 and the name was altered to Northern Transportation Company Limited. Eldorado Gold Mines Limited acquired the company in 1936, primarily to assure continuing and adequate service to its mine, but operation as a common carrier was maintained and the fleet was enlarged and modernized. Northern Transportation Company Limited became a Crown corporation after its parent, Eldorado Mining and Refining Limited (now Eldorado Nuclear Limited), was expropriated by the Government of Canada in 1944.

Initiation of the Canol Project in 1941, and re-opening of the Port Radium Mine in 1942, brought all Northern Transportation equipment into service for the duration of World War II. When the Canol Project was abandoned in 1944, the Company contracted to bring out 25,000 tons of equipment and materials. When this task was complete, the Company carried on as a carrier of a growing volume of commercial freight.

In 1946 all transportation on the Mackenzie system was brought under regulations of the Board of Transport Commissioners. When Hudson's Bay Transport discontinued operation as a common carrier in 1947, Northern Transportation added vessels to handle the additional freight.

The Company extended its operations into the Western Arctic for the first time in 1949, when it was requested by the R.C.A.F. to operate the supply ship "Snowbird" between Tuktoyaktuk and Cambridge Bay. Subsequently, the "Radium Dew" and three steel barges were designed and built to deliver construction materials for six DEW Line installations in the Mackenzie Delta, beginning in 1955. Three years later the Company began re-supply of 25 DEW Line sites along the Arctic Coast, operating LST's and tankers made available under a loan agreement between the United States and Canadian governments. A floating dry-dock became a part of the repair and maintenance facility at Tuktoyaktuk. Experience gained in the DEW Line re-supply proved of great value when the Company was called upon in recent years to move heavy and bulky equipment to such remote areas of the Arctic as Prudhoe Bay, on the Alaskan Coast, and Banks Island.

When mines around Lake Athabaska were coming into the development and production stage for the uranium boom of the mid-1950's, Northern Transportation built three new vessels and 27 steel barges to take care of the heavy increase in freight. Some of this equipment went into mothballs in 1960 when five mines in the Beaverlodge area, as well as the Port Radium mine, ceased operations.

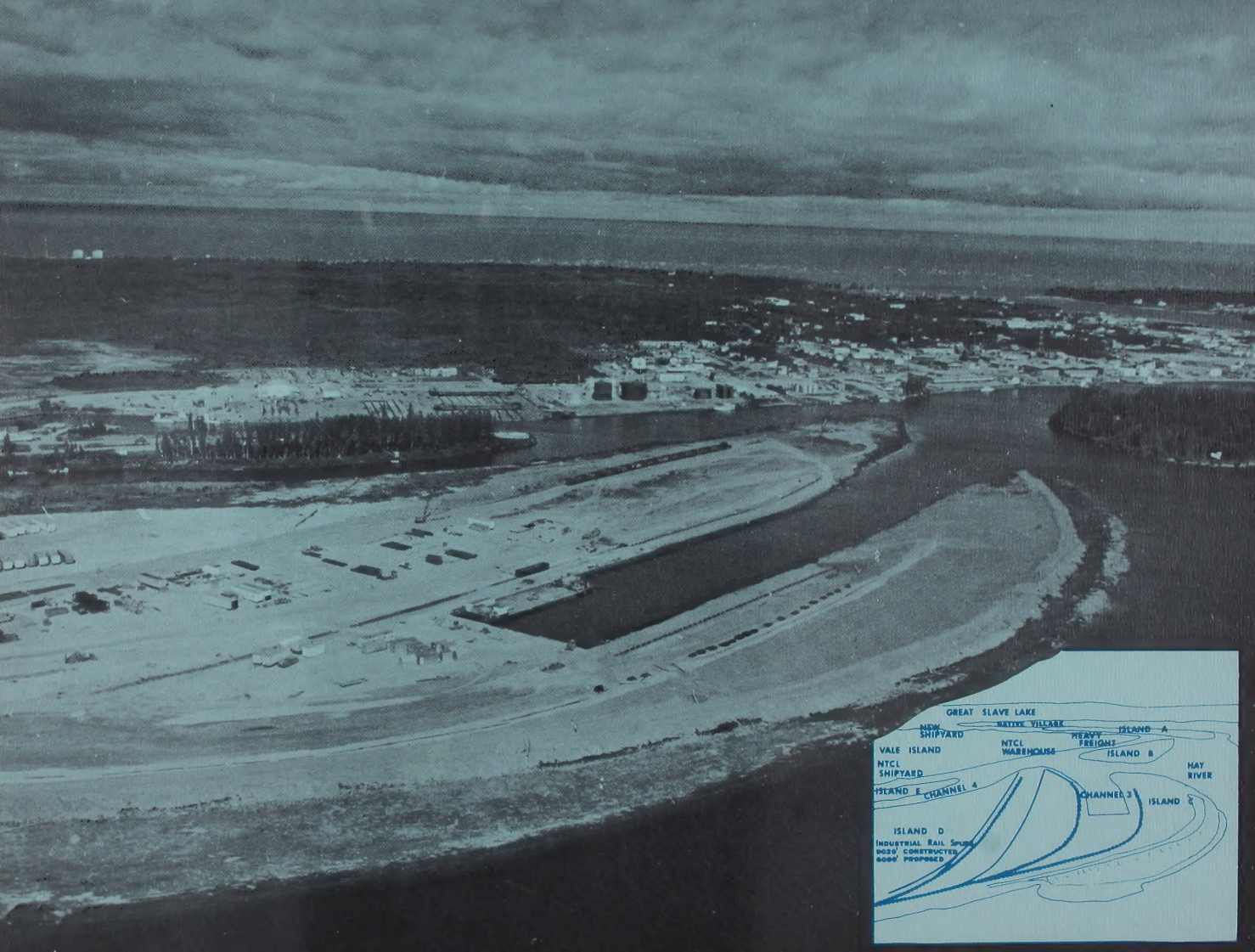
In 1963, at the request of the Hudson's Bay Company, Northern Transportation Company took over the Arctic freight service which had been provided by that organization, and acquired the motor vessel "Banksland". In July, 1965, the Company put into service the motor vessel "Frank Broderick", especially designed for operation in the Arctic. Subsequently, the vessel was extended to increase her capacity.

Early in 1965 the Company acquired Yellowknife Transportation Company Limited, Arctic Shipping Limited and Decury Supply Limited, which had carried on somewhat parallel shipping services, now integrated with those of Northern Transportation.

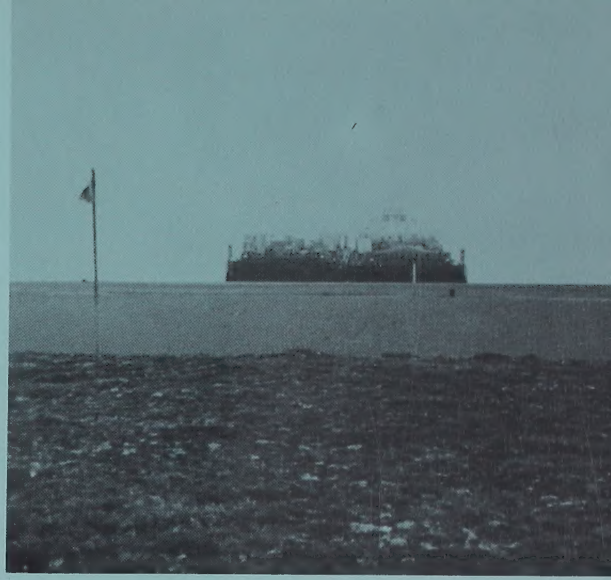
Concurrent with the growth of its fleet in recent years, and planned to meet current and foreseeable needs in light of rapid resource development in the Far North, the Company has created a modern terminal at Hay River, an expanded Arctic operations base on a new site at Tuktoyaktuk, and other facilities throughout its system.

During the operating season Northern Transportation employs more than 500 persons, many of whom are residents of the region the Company serves.

Designed for an ultimate loading capacity of 10,000 tons of cargo per day, a new bulk terminal has been established by Northern Transportation Company at Hay River. The facilities are particularly suitable for handling heavy oil field equipment and large diameter pipeline materials. INSET – Shows the layout of the terminal.


GREAT SLAVE LAKE
NEW SHIPYARD
NATIVE VILLAGE
ISLAND A
HEAVY FREIGHT
VALE ISLAND
NTCL WAREHOUSE
ISLAND B
NTCL SHIPYARD
HAY RIVER
ISLAND E
CHANNEL A
CHANNEL B
ISLAND C
ISLAND D
INDUSTRIAL RAIL SPUR
2020' CONSTRUCTED
6000' PROPOSED

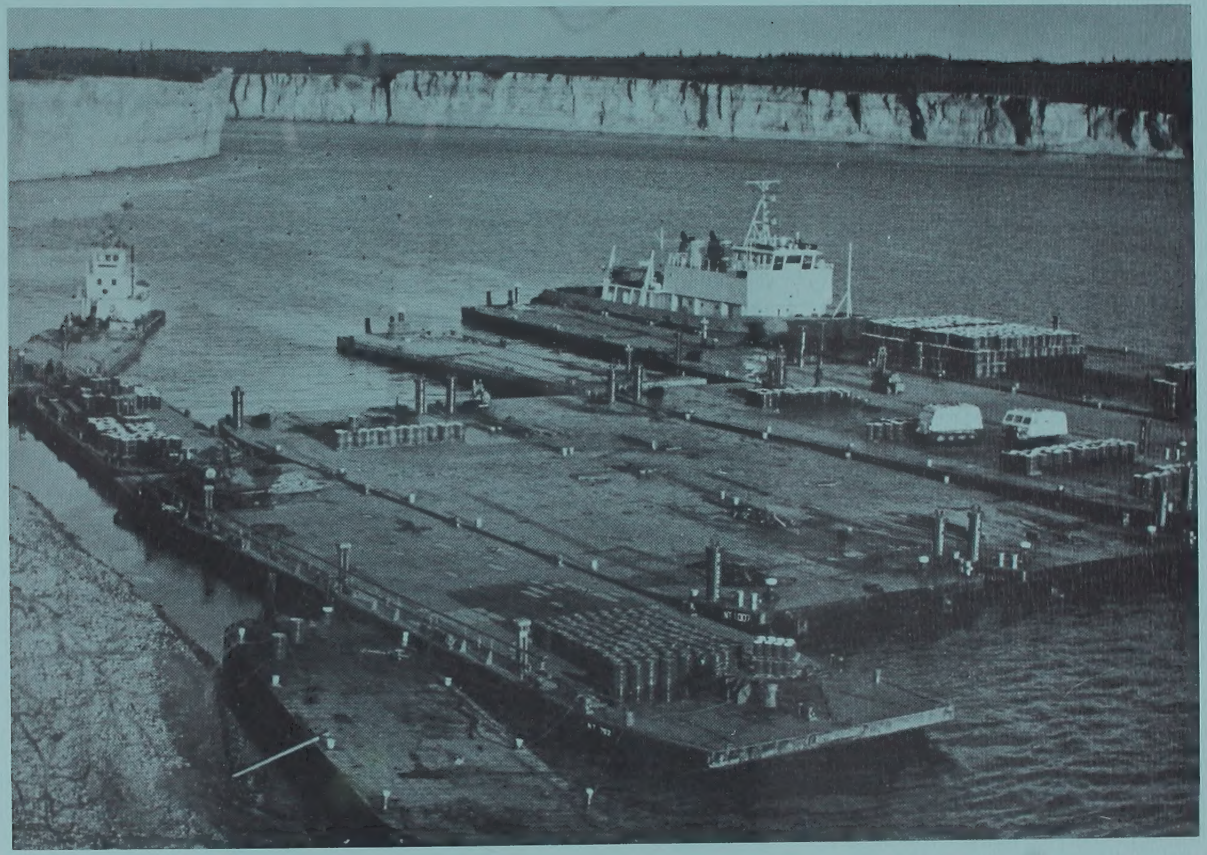






Vital Freight to the Arctic

Supplies and equipment for oil drilling operations on Banks Island in the Arctic are delivered by Northern Transportation Company. The MV Angus Sherwood is shown standing off shore and beaching her heavily-loaded freight barges at the off-loading area of the bleak island. INSIDE BACK COVER – Against the background of the imposing Lower Ramparts of the mighty Mackenzie River, tugs and barges make rendevous at this relay point.



NORTHERN
Transportation
Company Limited

Symbol of Service
in the Canadian North



The Mackenzie Route to the Western Arctic

A 4,000-mile System Embracing the Mackenzie Basin, and the Western Arctic from Boothia Peninsula to Prudhoe Bay in Alaska